2004

ANNUAL REPORT

Beaumont Select
CORPORATIONS

BEAUMONT SELECT CORPORATIONS INC.

NOTICE OF ANNUAL MEETING

Beaumont's Annual Meeting of holders of common shares will be held in the Borden Ladner Gervais LLP board room at 1000, 400 Third Avenue S.W. at Calgary, Alberta at 10:30 a.m., Calgary time on Wednesday, December 15, 2004.

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Corporate Directory

DIRECTORS

Winston Ho Fatt
Andrew Hyslop
Peter Kreutzer
Peter Farkas
Bruce Dorset

TRANSFER AGENT

Computershare Trust
Company of Canada
Calgary, Alberta

LEGAL COUNSEL

Borden Ladner Gervais LLP
Calgary, Alberta

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OFFICERS

Winston Ho Fatt
Chairman of the Board, and
Chief Executive Officer
Bruce Dorset
Vice Chairman of the Board
Andrew Hyslop
Corporate Secretary

AUDITORS

Meyers Norris Penny LLP
Calgary, Alberta

BANKERS

National Bank of Canada
Calgary, Alberta

STOCK EXCHANGE LISTING

TSX Venture Exchange
Calgary, Alberta

STOCK SYMBOL

BMN.A

Corporate Profile

Beaumont Select Corporations Inc. is a management and investment corporation, which has investments in the food processing and real estate industries as well as in a portfolio of marketable securities. Beaumont charges fees and interest on its investments to its subsidiary companies.

Food Processing Division

The Food Processing Division concentrates on providing high quality private label and branded products of a specialty nature in the frozen food and bakery products sectors. These products are distributed to food wholesalers and retailers in North America. The Frozen Food Unit is the largest processor of perogies and the largest private label processor of panzarottis in Canada, on a poundage basis. The Bakery Unit has fine product lines including high quality undecorated slab cakes, icings, Christmas cakes, Nanaimo bars, layered cakes, Swiss and jelly rolls, cake and yeast doughnut products, berry cups, crumbs and croutons, mini muffins and handcrafted cookies. These products are sold to most major retail chains in Western and Central Canada. Approximately 13% of the sales are made in the U.S.A. and attempts are being made to sell more in Quebec and the Maritimes. The production facilities are all located in Western Canada.

The goal of the Food Processing Division is to provide its customers with high quality, private label and branded products comparable in quality to those of national brands at lower prices and with a higher level of service.

Investments Division

In recent years, in an effort to diversify and ultimately enhance the Corporation's sources of income and financial returns, the Corporation established a portfolio of marketable securities overseen by the Company's investment division. The investment division operates within investment guidelines established by the Board of Directors of the Corporation and reports to the investment committee of the Board. By June 30, 2004, the Corporation's equity in the portfolio had grown to approximately $4.3 million.

Real Estate Division

The Real Estate Division owns three industrial buildings, one in Winnipeg and the other two in Calgary, with a total area of approximately 110,000 square feet. The Corporation also owns 40% of a company that owns 91 acres of investment land close to high end residential developments in Calgary. This company also owns 52% of Talisman Homes Ltd., a private home building company, giving the Corporation an indirect 20.8% interest in Talisman.

The Real Estate division also looks for developed and undeveloped real estate acquisition opportunities that can assist in the improvement, diversification and enhancement of the Corporation's financial returns.

CORPORATE GOAL

The corporate goal of Beaumont Select Corporations Inc. is to increase operating income, net income and EBITDA by at least 5% on an annualized basis over a 6-year period and to enhance long-term shareholder value. While Beaumont has historically sought to achieve a higher recurring increase, reductions in growth potential in the food area over the last two years and anticipated for the next year or two has required a tempering of this objective.

The chart below shows the progress we have made over the past six years.

6 YEAR FINANCIAL HIGHLIGHTS (in thousands of dollars except share and per share information)

	2004	2003	2002	2001	2000	1999
Sales	**$ 37,575**	$ 36,311	$ 36,602	$ 35,026	$ 32,127	$ 30,867
Operating Income	**385**	1,525	1,109	1,411	1,456	1,222
Net Income	**1,783**	98	83	652	417	1,027[3]
Funds from operations	**2,343**	3,199	2,232	3,150	3,072	2,675[3]
EBITDA before one-time expenses[1]	**5,003**[2]	4,251[2]	3,727	4,100	3,108	3,564[3]
Total Assets	**36,614**	29,142	29,679	28,116	25,196	24,862
Shareholders' Equity	**11,746**	10,763	10,921	11,086	10,100	10,071
Shares outstanding, end of year	**17,669,973**	17,866,473	18,139,473	18,523,973	19,344,473	20,079,830
Net Income per share – basic	**0.10**	0.00	0.00	0.04	0.02	0.05[3]
Funds from operations per share – basic	**0.13**	0.18	0.12	0.17	0.16	0.12[3]
EBITDA per share – basic	**0.28**[2]	0.24[2]	0.21	0.22	0.16	0.18[3]

Note 1: Earnings before interest, taxes, depreciation, amortization and special one-time expenses.
Note 2: Investment write-offs of approximately $92,000 and $705,000 have been excluded from the EBIDTA in 2004 and 2003 respectively.
Note 3: These figures include the final settlement of $69,549 related to the payment on a corporate guarantee provided to a German bank.

Report to Shareholders

In the face of substantial increases in most input costs for the food division, the Corporation still had a successful year of operations for the fiscal year ended June 30, 2004. All three divisions contributed positively to the net income. This is attributable to the continuous effort of the Management in cost control, improving efficiency and most of all, the initiatives taken in plant modernization in previous years. Sales revenue increased slightly compared to that of fiscal 2002/03. The net income improved over that of the previous year as did EBITDA.

FINANCIAL HIGHLIGHTS

The Corporation had a moderate increase in revenues to $37,600,000 from $36,300,000, but substantial improvement in both income before taxes of $2,077,000 and net income of $1,783,000 in 2004. The corresponding amounts in 2003 were $727,000 and 98,000 respectively. However, operating income was $3,183,000 in 2004, compared to $4,365,000 a year earlier because of the significant increases of almost all input costs in the food division.

EBITDA before one-time expenses also improved significantly to $5,003,000 in 2004, compared to $4,251,000 in 2003; conversely, funds from operations decreased to $2,343,000 from $3,199,000 on a year-over-year basis because of our accounting treatment of gains from marketable securities investment. The current ratio and debt to equity ratio were 1.29:1 and 2.11:1 in 2004, compared to 1.31:1 and 1.71:1 respectively in 2003.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's discussion and analysis (MD&A) should be read in conjunction with the Corporation's audited consolidated financial statements and the accompanying notes. All financial information is reported in accordance with Canadian generally accepted accounting principles (GAAP) unless noted otherwise. The financial measure of earnings before interest, taxes, depreciation and amortization (EBITDA) referred in this MD&A is not prescribed by GAAP, but defined herein as outlined in its corresponding section.

CONSOLIDATED FINANCIAL ANALYSIS

Revenues

Overall revenues increased by 3.5% to $37,600,000 in 2004 from $36,300,000 in 2003. The increase resulted primarily from the following:

- General sales increase of 1.5% in both food processing units with the increase in the bakery unit's sales tempered by reductions in some products due to the "low carb" phenomenon and the adverse impact from the weakening US dollar on US sales.
- Successful re-negotiation of an approximate 1% price increase on certain product lines.
- Launch of new product lines with specific customers.

Operating margin

The operating margin declined to $3,183,000 in 2004 from $4,365,000 in 2003 because of the following:

- Higher input costs by 5% of ingredients, packaging materials, labour, natural gas, and electricity, with ingredients and packaging accounting for approximately 85% of such increase.
- Higher transportation costs which rose by 5% due to higher fuel cost.
- The strength of Canadian currency also reduced by 3% the contribution to the operating margin from export sales.

Financing expenses

Interest on long-term debt and the short-term credit facility increased by 5% to $725,000 and $336,000 in 2004, compared to $763,000 and $244,000 respectively in 2003. The interest expense increase was primarily due to higher variable interest rates and additional borrowings associated with our larger marketable securities portfolio.

Corporate and administrative expenses

Corporate and administrative expenses increased by 3% to $1,280,000 in 2004 from $1,238,000 in 2003 mainly due to wage increases consistent with changes in the consumer price index and higher insurance costs.

Net income before and after income taxes

Net income before and after income taxes increased to $2,077,000 and $1,783,000 in 2004 despite the declines in the operating margin of the Food Division, compared to $727,000 and $98,000 respectively in 2003. The increase in net income before taxes was primarily due to the successful strategy of the following corporate investment activities:

- Realized gains on the Corporation's marketable securities portfolio of $1,416,000.
- Investment income of $464,000.
- Proportionate income from affiliated company of $151,000

The nature of such investment income also resulted in reduced future tax expenses of $223,000 in 2004 compared to $509,000 in 2003, which further improved Net Income after income taxes.

Cash flows from operations

The decrease in cash flows from operations to $2,343,000 in 2004, compared to $3,199,000 in 2003, was mainly due to the lower operating margin of $1,157,000 from the Food Division as a result of the same factors noted above in the operating margin analysis.

EBITDA before special and one-time charges

EBITDA is defined as earnings before interest, taxes, depreciation and amortization, and special and one-time charges which Management views as items that do not arise as part of the normal day-to-day business operations or that could potentially distort the analysis of trends. These earnings measures do not have a standardized definition prescribed by GAAP and are therefore not readily comparable to similar measures presented by other corporations even in the same industry.

The following table provides the reconciliation of EBITDA before the impact of special and one-time charges to EBITDA in 2004 and 2003:

	2004	2003
EBITDA before the following:	**$ 5,003,000**	$ 4,251,000
Write-down marketable securities	**(92,000)**	(413,000)
Unrealized losses on marketable securities	–	(292,000)
EBITDA	**$ 4,911,000**	$ 3,546,000

Investing activities

Approximately $1,198,000 capital expenditures were incurred primarily to purchase new and to improve existing equipment, as compared to $882,000 in 2003. This equipment was used principally in the Bakery unit for the production of new doughnut products.

Approximately $500,000 of deferred expenses were incurred in the development of new product lines for the Corporation (being principally yeast doughnut) and packaging designs, as compared to $147,000 in 2003.

During the third quarter, the Corporation advanced an aggregate of $400,000 to an affiliated company in which the Corporation has a 40% interest. The advances represented the Corporation's proportionate share of new capital required by the borrower for investment in a new business enterprise (Talisman Homes) and as a loan for working capital purposes. $200,000 of the advance bears interest at 6% per annum while the balance of the advance is non-interest bearing. Neither facility has any fixed term of repayment, though $67,000 was repaid on the non-interest bearing loan subsequent to year end.

Financing Activities

Refinancing of loans

The Corporation successfully secured a new term loan in one of the subsidiaries for $2.6 million. The new facility provided a longer amortization period and was used to retire an existing term-debt. As of June 30, 2004, the Corporation added approximately $630,000 to its long-term debt and $1,400,000 to its short-term facility, as compared to the loan balances as of June 30, 2003.

Special dividend

The Corporation declared a special dividend of $0.028 per share on its Class A common shares, payable on March 15, 2004 to shareholders of record at the close of business on February 19, 2004. This was the first dividend paid by the Corporation, which approximately amounted to $496,000.

Repurchase of Common shares

The directors and management feel that the shares of the Corporation are trading on the market at less than their fair value and the Corporation is continuing the repurchase of shares under a normal course issuer bid. As of June 30, 2004, under its normal course issuer bid, the Corporation had repurchased 376,500 shares for a cost of $396,242. Since the beginning of the share repurchase program six years ago, the Corporation has repurchased approximately 3,645,000 shares from the market in a continued effort to improve shareholder value. As of the quarter ended June 30, 2004, the Corporation had approximately 17,670,000 shares issued and outstanding.

In June 2004, the Corporation received approval from The TSX Venture Exchange to acquire an additional 887,179 shares, representing approximately 5% of the issued and outstanding class "A" shares, through a seventh Normal Course Issuer Bid. This process commenced on July 2, 2004 and will terminate on the earlier of July 1, 2005 or such date as all of the Bid Shares are purchased pursuant to the "Bid Period" stipulated herein.

Liquidity and Capital Resources

At June 30, 2004, the Corporation had total operating credit facilities of $3.4 million with various institutions, of which $2.6 million had been drawn, and a balance of $0.8 million remained available. The operating facilities may be drawn down or repaid at any time, and there are no scheduled repayment terms.

At June 30, 2004, the Corporation also had a working capital surplus of approximately $4.1 million, cash flows from operations of $2.4 million and EBITDA of $5.0 million.

The Corporation anticipates that its 2004-5 anticipated capital spending program will be approximately $1.2 million with approximately $300,000 directed to new packaging and labelling equipment in the frozen food unit to improve efficiencies, $700,000 to new equipment for anticipated new product lines in the bakery unit and the balance to research and product development. Long term debt principal repayments for the upcoming year are approximately $1.44 million. The Corporation believes that available cash flow from operations, working capital surplus and its borrowing facilities will be sufficient to fund these capital expenditures and debt repayment obligations.

Summary of quarterly results

(in thousands of dollars except per share information)

	2004					2003				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
Revenues	$9,673	$11,298	$9,425	$7,179	$37,575	$9,077	$10,950	$8,327	$8,031	$36,385
Net income (loss)	605	598	379	201	1,783	514	348	153	–917	98
Earnings (loss) per share	0.03	0.03	0.02	0.02	0.10	0.03	0.02	0.00	–0.05	0.00

2004 quarterly results followed historical seasonal trends with the first half of the year, especially the second quarter posting the strongest sales and net income results. The fourth quarter sales retreated slightly more than usual in part due to lower bakery unit sales affected by the "low carb phenomenon". That adverse impact appears to have reached a plateau and, combined with the modifications to a number of the Corporation's baked products in response to this market development, is now slowly reversing itself.

Operations

The Corporation met with both successes and continuing obstacles during the year as a number of the challenges that surfaced in 2002-3 continued into the next year as anticipated. These occurred particularly in the areas of higher than normal input costs due to increases in commodity prices, ingredient costs such as flour, cooking oil, packaging costs and service charges such as insurance and utilities. The Corporation continued its efforts in the areas of mechanizing further its production lines and its practice of buying futures and buying in bulk to obtain the lowest possible prices, all with a view to improving efficiency to generating cost savings and increased profitability.

DIVISIONAL REPORTING

Food Processing Division

The Food Processing Division continues to grow in both Canada and the United States, although more slowly than historically. Both the Frozen Food Unit and the Bakery Unit continue to develop and seek to introduce new products to the market. In the past year we successfully introduced a line of yeast doughnut products, reformulated most of our products to eliminate transfats and reduced the sugar in some of our products.

The Frozen Food Unit continues to generate acceptable positive returns but has faced substantial resistance to price increases despite generally acknowledged increases in input costs. This appears due to the substantial concentration of production capacity in Canada with correspondingly strong competition from the Corporation's competitors.

In the Bakery Unit, the Corporation is striving to increase the length of its product runs which are shorter than in the Frozen Food unit due to the nature of the many varied products sought by the market place and the shorter shelf life of those products. While the ingredients, services and transportation cost increases have similarly affected both the Bakery Unit and the Frozen Food Unit, the Bakery Unit has had some success in achieving price increases to offset at least part of such cost increases. The timeline for market distribution of new products developed by the Corporation, measured from the time the Corporation has completed the research and development of a new viable product, is becoming longer and more costly in terms of packaging development than in prior years.

While the Food Processing Division continues to research new product opportunities, more of the near term growth is anticipated to come from acquisitions and consolidation in the baked goods area. The Corporation's acquisition of the business and assets of First City Gourmet Foods following the year end is an example of this. First City Gourmet Foods produces hand crafted cookies for both food retailers as well as various restaurant chains with current capacity of approximately 30,000 cookies per day. This represents a potential new product market for the Corporation. With First City's production facilities located in the lower mainland B.C., the Corporation has the opportunity to integrate that business with its existing B.C. operations with corresponding increases in efficiencies and lower overall costs.

Investment Division

Several years ago it was determined that margins in the food business would become increasingly difficult to maintain without substantial capital investment given the consolidation of both our customers and our suppliers. While continuing to invest capital in the Food Division, the Corporation also directed a portion of its capital to a portfolio of marketable securities diversified into other non-food businesses. It was reasoned that there are many businesses trading on stock exchanges in North America which due to business cycles and other factors may have greater growth and profit potential at any specific time to those available in the food business. The results of the last fiscal year in our Investment Division can be traced to appropriate investigation of investment alternatives and making the right choices. Over this last period the marketable securities portfolio has been weighted towards oil and gas enterprises. Subsequent to the year end two professionals were hired to assist the Chairman to operate this Division. At the time of writing, the realized and unrealized gain since June 30, 2004 amounts to more than $2.5 million with anticipated distribution income of approximately $800,000 for the balance of the fiscal year. Looking forward, it is anticipated that the size of energy related investments will gradually be reduced in favour of various business trusts and other investments.

Real Estate Division

Over the years, the Corporation has seen an increase in real estate values in the areas where it owns properties. The total rentable space of the Corporation's buildings is approximately 110,000 square feet of industrial space. All buildings were fully leased by affiliates of the Corporation. Two of the three industrial buildings are in prime industrial areas in Calgary, Alberta, while the third one is in Winnipeg, Manitoba. The potential growth of operations based in B.C. raises the prospect that the Real Estate division will be looking to acquire some industrial property in the lower mainland to accommodate all such operations.

CORPORATE ACTIVITY

Valuation of Beaumont Common Shares

As disclosed in Beaumont's quarterly report dated February 27, 2004, by agreement dated November 24, 2003 (the "Engagement Agreement"), the Corporation engaged Meyers Norris Penny LLP ("MNP") to provide an estimate as to the range of per share values (the "Valuation") of the common shares of the Corporation (the "Shares") as at June 30, 2003, (the "Valuation Date"). The Corporation requested the estimate to assist the board in its deliberations regarding the continuation of the Corporation's issuer bid (the "Issuer Bid") and the prices at which specific offers should be made by the Corporation for Shares under the Issuer Bid. The Valuation should not be construed as a recommendation of MNP to any holder of Shares as to whether to tender to the Issuer Bid.

The Valuation is the estimate of MNP and the form and content thereof were approved by a committee of its senior valuation professionals, who are collectively experienced in mergers, acquisitions, divestitures and valuation matters. MNP received a fee of $25,000 from the Corporation for providing the Valuation.

In completing the Valuation, MNP has relied on the concept of "value" as determined by fair market value, which for the purposes of the Valuation is defined as the highest price, available in an open and unrestricted market between informed and prudent parties, acting at arm's length, and under no compulsion to act, expressed in terms of money or money's worth.

In preparation of the Valuation, MNP relied primarily on a capitalized cash flow valuation methodology. Capitalization rates were determined based on an analysis of risks and opportunities unique to the industries the Corporation operates in as well as those of the Corporation in particular. MNP also conducted reasonableness tests by calculating the net tangible asset backing of the Corporation and assessing the difference between the fair market value and the net tangible asset backing which represents goodwill inherent in the business.

Based upon and subject to the foregoing, MNP concluded that the en bloc fair market value as of the Valuation Date of the Corporation's common equity was in the range of $16.2 million to $16.6 million or for each Share of the Corporation was in the range of $0.87 and $0.89. The Board has neither endorsed nor rejected the conclusions in the Valuation, though such seem to be reasonable based on the analysis set forth therein.

Recent Accounting and Regulatory Guideline Changes

Change of Auditors

As previously reported, KPMG LLP, Chartered Accountants (the "Former Auditors") resigned as auditors of the Corporation effective June 10, 2004 at the request of the Corporation. The Corporation appointed Meyers Norris Penny LLP, Chartered Accountants (the "Successor Auditors"), as the new auditors of the Corporation. There were no reservations in the Former Auditors' reports for the two most recently completed fiscal years or for any period subsequent to the most recently completed period for which an audit report was issued and preceding the date of the Former Auditors' resignation. There were no reportable events between the Corporation and the Former Auditors. The resignation of the Former Auditors and the appointment of the Successor Auditors as auditors of the Corporation were approved by the Corporation's audit committee and its board of directors.

Continuous disclosure obligations

For the fiscal year beginning July 1, 2004, the Corporation becomes subject to the new continuous disclosure requirements as per National Instrument 51-102 "Continuous Disclosure Obligations". Being considered as "venture issuer" by definition, the Corporation is required to shorten the reporting periods for filing of annual financial statements and MD&A to 120 days after the fiscal yearend.

The instrument also proposes enhanced disclosure in the annual and interim financial statements, and MD&A. Under this new instrument, it will no longer be mandatory for the Corporation to mail annual and interim financial statements and MD&A to shareholders. Instead, these documents are to be provided on an "as requested" basis. The Corporation continues to assess the implications of this new instrument.

Asset retirement obligations

In March 2003, CICA handbook section 3110, "Asset Retirement Obligations" was issued to address the obligations and measurements of liabilities related to legal obligations associated with the retirement of property, plant and equipment. The fair value of the asset retirement obligations are to be recorded and capitalized on a discounted basis as part of the cost of the related asset, and amortized to expenses over its useful life. The implementation of this amended standard had no impact on net income for the fiscal year ended June 30, 2004.

Stock-based compensation

In September 2003, the CICA issued an amendment to Section 3871 "Stock based compensation and other stock based payments", which modified the scope of measuring compensation expenses related to stock based payments. The Corporation adopted this amendment applying it from July 1, 2003. The amendment requires that the Corporation measure all stock based payments using the fair value method of accounting and recognize the compensation expense over the estimated vesting periods of the respective options in the financial statements. This requires that compensation expense be calculated and recorded in the income statement for options issued on or after July 1, 2003. For common share options prior to July 1, 2003 ("pre-2003 options"), compensation expense is not recognized, but the Corporation continues to disclose the pro forma earnings impact of related stock-based compensation expense for pre-2003 options. The implementation of this amended standard had no impact on net income for the fiscal year ended June 30, 2004 as no options were granted during the year.

SUBSEQUENT EVENTS

On August 12, 2004, a subsidiary of the Corporation entered into an asset purchase agreement with First City Gourmet Foods ("First City"), a division of Sepp's Gourmet Foods Ltd. Pursuant to the agreement, the subsidiary purchased certain manufacturing and baking equipment coupled with other related inventory and customer lists for a consideration of approximately $445,000. With the synergies from the integration of First City into our BC operations we expect the pay back to be within 3 years.

On July 30, 2004, the Corporation entered into a loan agreement with a shareholder and former officer of the Corporation pursuant to which the Corporation borrowed $250,000, unsecured, bearing interest rate at 13% per annum to be paid monthly, with the principal to be repaid in full on July 31, 2005. The amount was used towards financing the asset purchase of First City.

2005 OUTLOOK

Sales

Positive sales growth of approximately 3% is anticipated by Management this year in the Food Processing Division derived principally from new products developed in both the Frozen Food Unit and the Bakery Unit over the past two years as well as from the First City Foods acquisition. This estimate also includes management's belief that price increases in the Frozen Food Unit are expected to remain marginal, though some small increases should be achieved in the Bakery Unit.

Margins

The Corporation is continuing its focus on reducing unit costs by further mechanization and by introducing new products with better margins. Management anticipates however that ingredient, packaging and transportation costs are likely to remain at above historical averages for the ensuing year with possible moderation in the 2005-6 fiscal year. A potential further weakening of the US currency would also continue to adversely impact the contribution from US sales, although subsequent to year end the Corporation has begun to hedge a portion of its US sales with a view to reducing this impact.

Net income and cash flow

The Corporation is targeting to return the operating income and funds flow results to its prior high in achieved in fiscal year 2002/2003 while also achieving a further modest increase over last year's EBIDTA. Preliminary indications are that the cash flow for the first quarter of 2004/2005 is close to that of the same period for the 2003/2004 fiscal year while the EBITDA is expected to be higher due to results from the Investment Division.

Forward-Looking Statements

This Annual Report may contain forward-looking statements including statements regarding the business and anticipated financial performance of the Corporation. These forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results and performance of the Corporation to be materially different from the future results and performance expressed or implied by such forward-looking statements. A number of factors could affect the actual results, including but not limited to, input costs, competition, and access to capital market. In light of the significant uncertainties inherent in the forward-looking statements, the inclusion of such information should not be regarded as a representation by the Corporation that the objectives and plans of the Corporation will be achieved. The Corporation will not necessarily update the forward-looking statements as information become available.

A NOTE OF THANKS

We wish to take this opportunity to thank all of our managers, supervisors and employees who, as associates, worked so hard to make this another successful year.

Winston Ho Fatt
Chairman and Chief Executive Officer

Financial Statements

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Beaumont Select Corporations Inc. have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied. The Corporation's accounting procedures and related systems of internal control are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable. In recognizing that the Corporation is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been prepared with this in mind and within the information presented in the financial statements.

Meyers Norris Penny LLP (MNP), Chartered Accountants, who were appointed by the Board of the Corporation to serve as the Corporation's external auditors until the next annual meeting of shareholders, have examined the consolidated financial statements of the Corporation for the year ended June 30, 2004. The financial statements as at and for the year ended June 30, 2003 were audited by KPMG LLP, who expressed an opinion without reservation on these statements in their reported dated September 12, 2003.

The Audit Committee has reviewed these statements with management and the auditors, and has reported to the Board of Directors. The Board has approved the consolidated financial statements of the Corporation herein.

Winston Ho Fatt
Chairman and Chief Executive Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheet of Beaumont Select Corporations Inc. as at June 30, 2004 and the consolidated statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at June 30, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at and for the year ended June 30, 2003 were audited by other auditors, who expressed an opinion without reservation on these statements in their report dated September 12, 2003.

Meyers Norris Penny LLP
Chartered Accountants

Calgary, Canada
October 18, 2004

Consolidated Balance Sheets

June 30, 2004 and 2003

	2004	2003
ASSETS		
Current assets:		
Cash	**$ 1,067,183**	$ 1,149,416
Marketable securities (note 2)	**10,323,544**	4,353,723
Accounts receivable	**2,982,243**	2,424,313
Inventory (note 3)	**3,641,802**	2,959,643
Prepaid expenses	**177,461**	211,994
Current portion of loans receivable (note 4)	**78,354**	40,603
	18,270,587	11,139,692
Loans receivable (note 4)	**74,000**	170,000
Investment in and due from affiliated company (note 5)	**979,192**	427,998
Property and equipment (note 6)	**15,420,699**	15,674,210
Goodwill	**925,624**	925,624
Intangible assets (note 7)	**944,356**	804,832
	$36,614,458	$29,142,356
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank loans (note 8)	**$ 2,617,343**	$ 1,212,193
Accounts payable and other liabilities	**3,634,923**	3,606,330
Margin loans on marketable securities investment (note 2)	**6,497,134**	2,305,066
Current portion of long-term debt (note 8)	**1,439,878**	1,352,722
	14,189,278	8,476,311
Due to related parties (note 5)	**234,748**	221,911
Future income taxes (note 11)	**668,500**	445,500
Long-term debt (note 8)	**9,775,861**	9,236,036
Shareholders' equity:		
Share capital (note 9)	**8,325,420**	8,409,940
Retained earnings	**3,420,651**	2,352,658
	11,746,071	10,762,598
Commitment and contingency (notes 14 and 15)		
Subsequent events (note 17)		
	$36,614,458	$29,142,356

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Winston Ho Fatt
Director

Peter Kreutzer
Director

Consolidated Statements of Operations and Retained Earnings

Years ended June 30, 2004 and 2003

	2004	2003
Revenues (notes 5 and 12)	**$ 37,574,647**	$ 36,311,478
Cost of sales:		
Direct expenses	**32,939,439**	30,468,462
Depreciation and amortization	**1,451,997**	1,477,782
	34,391,436	31,946,244
Operating margin	**3,183,211**	4,365,234
Operating expenses:		
Corporate and administrative (note 5)	**1,280,345**	1,238,431
Interest on long-term debt	**725,140**	763,011
Short-term interest and bank charges	**111,241**	143,113
Royalty (note 5)	**360,000**	360,000
Depreciation and amortization	**321,043**	335,215
	2,797,769	2,839,770
Income before the following	**385,442**	1,525,464
Other income (expenses):		
Write-down of marketable security (note 2)	**(92,175)**	(412,666)
Unrealized losses on marketable securities (note 2)	**–**	(291,843)
Interest on margin loans (note 2)	**(225,187)**	(100,902)
Investment income (note 2)	**464,027**	73,169
Gain (loss) on sale of marketable securities (note 2)	**1,416,010**	(32,730)
Write-down of loans receivable (note 4)	**–**	(42,000)
Income from affiliated company (note 5)	**151,194**	–
Foreign exchange gain	**15,898**	8,304
Write-down of intangible assets (note 7)	**(38,655)**	–
	1,691,112	(798,668)
Income before income taxes	**2,076,554**	726,796
Income taxes (note 11):		
Current	**70,204**	119,769
Future	**223,000**	509,000
	293,204	628,769
Net income	**1,783,350**	98,027
Retained earnings, beginning of year	**2,352,658**	2,382,580
Excess of consideration paid over stated value of shared redeemed (note 9)	**(219,022)**	(75,023)
Excess of deficiency in investment in affiliated company over the net equity in affiliated company (note 5)	**–**	(52,926)
Dividends paid on common shares (note 9)	**(496,335)**	–
Retained earnings, end of year	**$ 3,420,651**	$ 2,352,658
Net income per share (note 9):		
Basic	**$ 0.10**	$ –
Diluted	**$ 0.10**	$ –

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended June 30, 2004 and 2003

	2004	2003
Cash provided by (used in):		
Operations:		
Net income	$ 1,783,350	$ 98,027
Add (deduct) items not requiring cash:		
Depreciation and amortization	1,773,040	1,812,997
Write-down of marketable security	92,175	412,666
Unrealized losses on marketable securities	–	291,843
Future income taxes	223,000	509,000
Write-down of loans receivable	–	42,000
Loss (gain) on disposal of marketable securities	(1,416,010)	32,730
Income from affiliated company (note 5)	(151,194)	–
Write-down of intangible assets	38,655	–
Funds from operations	2,343,016	3,199,263
Net change in non-cash working capital balances (note 16)	(1,630,882)	(399,156)
	712,134	2,800,107
Investing:		
Purchase of property and equipment	(1,198,020)	(881,638)
Expenditures on intangible assets	(499,688)	(147,093)
Increase in loans receivable	(341,751)	(75,492)
Net cash paid on sale of interest in wholly-owned subsidiary (note 5)	–	(27,272)
	(2,039,459)	(1,131,495)
Financing:		
Increase (decrease) in bank loans, net of repayments	1,405,151	(1,020,558)
Repurchase and cancellation of Class A common shares	(396,242)	(226,625)
Issue of Class A common shares	92,700	23,100
Dividends paid on common shares	(496,335)	–
Increase (decrease) in long-term debt, net of repayments	626,981	(68,898)
Increase in due to related parties	12,837	36,748
	1,245,092	(1,256,233)
(Decrease) increase in cash during the year	(82,233)	412,379
Cash, beginning of year	1,149,416	737,037
Cash, end of year	$ 1,067,183	$ 1,149,416

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended June 30, 2004 and 2003

GENERAL:

Beaumont Select Corporations Inc. (the "Corporation") is incorporated under the Business Corporations Act of Alberta. The Corporation's primary operations relate to food processing and distribution, real estate and rental properties, and marketable securities investment.

1. SIGNIFICANT ACCOUNTING POLICIES:

The consolidated financial statements of the Corporation have been prepared in accordance with Canadian generally accepted accounting principles. In the preparation of these consolidated financial statements, management has made estimates and assumptions that affect the recorded amounts of certain of the Corporation's assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. The most significant estimate relates to determining the cost recoverability of the Corporation's goodwill and other intangible assets, which are principally based upon estimated future cash flows. While it is the opinion of management that these consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below, actual results could differ from the estimates made.

(a) Basis of presentation:

The consolidated financial statements include the accounts of the Corporation and its subsidiaries. Certain of the comparative figures have been reclassified to conform to the current year's financial statement presentation.

(b) Inventory:

Inventory is recorded at the lower of cost (first in, first out basis) and market, with market determined at net realizable value.

(c) Property and equipment:

Property and equipment are recorded at cost upon acquisition. Depreciation on property and equipment is provided using principally the straight-line method over the estimated useful lives of the assets as follows:

Asset	Estimated Useful Life
Production equipment	10 to 20 years
Buildings	10 to 20 years
Leasehold improvements	10 years
Vehicles	4 to 10 years

(d) Goodwill and other intangibles:

Goodwill represents the excess of cost over the fair value of net assets acquired. Other intangible assets relate to deferred financing costs associated with the refinancing of long-term debt and deferred development costs associated with the development of new commercially viable product lines and packaging designs. Effective July 1, 2002 the Corporation was required to adopt the new accounting standards with respect to goodwill and other intangible assets, which require that the amortization of goodwill be replaced with an annual test for impairment and that intangible assets other than goodwill be amortized over their useful lives. Other intangibles relating to deferred development costs are amortized on a straight-line basis over periods ranging from five to ten years and deferred financing costs are amortized over the term of the corresponding debt facility. Management tests goodwill and other intangible assets for impairment at the end of the Corporation's fiscal year, taking into consideration the nature of the industry and the circumstances which might impair the value. The amount of impairment, if any, is determined based on estimated future cash flows. Any impairment in the value of the goodwill or other intangibles is charged in the period when impairment is determined.

1. SIGNIFICANT ACCOUNTING POLICIES: *continued*

(e) Asset retirement obligations:

In March 2003, CICA handbook section 3110, "Asset Retirement Obligations" was issued to address the obligations and measurements of liabilities related to legal obligations associated with the retirement of property, plant and equipment. The fair value of the asset retirement obligations are to be recorded and capitalized on a discounted basis as part of the cost of the related asset, and amortized to expense over its useful life. The implementation of this amended standard had no impact on net income for the fiscal year ended June 30, 2004.

(f) Foreign currency translation:

Integrated foreign operations have been translated into Canadian dollars using the temporal method as follows:

Monetary items – exchange rates in effect at the balance sheet date;

Non-monetary items – exchange rates in effect on the dates of those transactions; and

Revenues and expenses – at the average exchange rate prevailing during the year; except for depreciation and amortization, which is translated at prevailing rates when the respective assets were acquired. Gains and losses arising from the translation are included in income for the current year.

(g) Marketable securities:

Marketable securities are stated at the lower of cost and market value.

(h) Per share amounts:

Basic net income per share is calculated using the weighted average number of common shares outstanding during the year. Diluted net income per share is calculated following the treasury stock method assuming that the proceeds obtained upon the exercise of options would be used to purchase common shares at the average market price during the period.

(i) Income taxes:

The Corporation follows the liability method of accounting for income taxes. Under this method, future income tax liabilities and future income tax assets are recorded based on temporary differences – the difference between the carrying amount of an asset and liability in the consolidated balance sheet and its tax basis using income tax rates enacted at the balance sheet date. The effect of changes in rates on future income tax liabilities and assets is recognized in the period that the change occurs.

(j) Stock-based compensation:

In September 2003, the CICA issued an amendment to Section 3871 "Stock based compensation and other stock based payments". The amended section is effective for fiscal year beginning on or after January 1, 2004, however earlier adoption is recommended. The amendment requires that the Corporation measure all stock based payments using the fair value method of accounting and recognize the compensation expense over the estimated vesting periods of the respective options in the financial statements. The Corporation elected to prospectively implement this amended accounting standard on July 1, 2003 in accordance with the early adoption provisions. Early adoption requires that compensation expense be calculated and recorded in the income statement for options issued on or after July 1, 2003. For common share options prior to July 1, 2003 ("pre-2003 options"), compensation expense is not recognized, but the Corporation continues to disclose the pro forma earnings impact of related stock-based compensation expense for pre-2003 options. The implementation of this amended standard had no impact on net income for the fiscal year ended June 30, 2004 as no options were granted during the year.

1. SIGNIFICANT ACCOUNTING POLICIES: *continued*

(k) Long-term investment:

The Corporation's long-term investment represents a 40% ownership interest in Somerset Properties Ltd. ("Somerset") (see note 5) and is accounted for using the equity method. Under this method, the investment account was recorded at its carrying value on June 30, 2003, the date on which the Corporation sold 60% of its ownership interest in Somerset, and is adjusted by the Corporation's proportionate share of Somerset's net earnings or losses and dividends received. The carrying value of the long-term investment is periodically reviewed by management to determine if the facts and circumstances suggest that it may be permanently impaired. Any impairment identified through this assessment would result in a write-down of the investment and a corresponding charge to income.

Somerset's primary operations relate to the investment in marketable securities, the construction and sale of homes, and the ownership and rental of real estate.

(l) Revenue recognition:

Revenue from product sales are net of returns, rebates, allowances and credit notes and are recorded when delivery has been made and legal ownership of the product has been transferred to the customer.

2. MARKETABLE SECURITIES:

At June 30, 2004, the Corporation held marketable securities with a fair market value of $10,797,123 (2003 – $4,470,165) of which approximately $6,800,000, or 63% was in the oil and gas industry (2003 – $3,500,000 or 78%). In addition, the Corporation also has margin loans totalling $6,497,134 (2003 – $2,305,066). Marketable securities are held as collateral to satisfy the requirements of the margin loans.

3. INVENTORY:

	2004	2003
Raw materials	**$ 2,465,130**	$ 1,917,091
Finished goods	**1,176,672**	1,042,552
	$ 3,641,802	$ 2,959,643

4. LOANS RECEIVABLE:

	2004	2003
Non-interest bearing loans receivable of which $70,000 is secured by a second charge on all of the assets of the debtor, and the remaining balance is unsecured with varying repayment terms	**$ 152,354**	$ 210,603
Less current portion	**78,354**	40,603
	$ 74,000	$ 170,000

Of the outstanding loans receivable, $ nil (2003 – $100,000) is due from an officer and shareholder of the Corporation. During the year ended June 30, 2004 loans totalling $ nil (2003 – $42,000) were considered uncollectible and written-off.

5. RELATED PARTY TRANSACTIONS:

(a) Investment in and due from affiliated company:

Effective June 30, 2003 the president of the Corporation sold land and marketable securities to Somerset in exchange for consideration consisting of preferred shares and a non-interest bearing note payable. In addition, Somerset issued 150 common shares for proceeds totalling $150 to the president of the Corporation. As such, the Corporation's ownership interest in Somerset changed from 100% to 40%. As these transactions were conducted between related parties, no gain or loss on the disposition of the Corporation's ownership interest was recognized and the difference between the proportionate carrying value of the assets and liabilities sold versus the net deficiency in the equity of Somerset was recorded as a charge to retained earnings totalling $52,926 including future income taxes totalling $30,500. The initial investment in Somerset during 2003 consisted of unsecured non-interest bearing advances of $683,654, and a deficiency charged to retained earnings of $255,656. During the last quarter of 2004, the Corporation advanced an aggregate of $400,000 to Somerset, of which $200,000 of the advance bears interest at 6% per annum while the balance of the advance is non-interest bearing. Neither facility has any fixed term of repayment. The advances represented the Corporation's proportionate share of new capital required to acquire approximately 52% of Talisman Homes of Calgary. As a result, the Corporation has an indirect ownership in the Calgary homes builder of approximately 20.8%.

Details of the amount invested in and due from Somerset are as follows:

	2004	2003
Investment in Somerset – beginning	$ 427,998	$ 683,654
Income from equity investment	151,194	–
Deficiency in investment	–	(255,656)
Investment in Somerset – ending	$ 579,192	$ 427,998
Due from Somerset, unsecured, non-interest bearing	$ 200,000	$ –
Due from Somerset, unsecured, bearing interest @ 6% per annum, with no specific terms of repayment	200,000	–
Due from Somerset – ending	$ 400,000	$ –
	$ 979,192	$ 427,998

(b) Due to related parties:

	2004	2003
Convertible debenture due to a shareholder and former officer of the Corporation, unsecured, bearing interest at 10% per annum compounded annually and payable on a monthly basis, with the principal portion repayable in full on July 1, 2007. The debenture is convertible at any time up to maturity, at the option of the holder, into 166,667 Class A common shares	$ 100,000	$ 100,000
Promissory notes due to shareholders of the Corporation, $34,350 bears interest ranging from 5 to 10% per annum and $100,398 bears interest at 10% to 12% per annum. The notes are unsecured and with no fixed terms of repayment	134,748	121,911
	$ 234,748	$ 221,911

5. RELATED PARTY TRANSACTIONS: *continued*

(c) Other related party transactions are as follows:

		2004	2003
(i)	Royalty charged by a company in which the chairman of the Corporation is the president but not a shareholder	$ 360,000	$ 360,000
(ii)	Management fees charged by shareholders of the Corporation included in corporate and administrative expenses	$ 766,000	$ 763,000
(iii)	Interest revenue on amounts due from an officer and shareholder of the Corporation included in revenues	$ 5,233	$ 5,000
(iv)	Interest expense on amounts due to shareholders of the Corporation	$ 12,310	$ 15,530
(v)	Fees paid to shareholders or directors of the Corporation included in corporate and administrative expenses	$ 106,300	$ 64,300

6. PROPERTY AND EQUIPMENT:

2004	Cost	Accumulated depreciation	Net book value
Production equipment	$ 24,288,900	$ 12,808,417	$ 11,480,483
Buildings	3,459,157	1,607,786	1,851,371
Leasehold improvements	2,412,342	1,439,703	972,639
Vehicles	852,257	651,051	201,206
Land	915,000	–	915,000
	$ 31,927,656	$ 16,506,957	$ 15,420,699

2003			
Production equipment	$ 23,174,412	$ 11,697,851	$ 11,476,561
Buildings	3,459,156	1,491,200	1,967,956
Leasehold improvements	2,346,469	1,231,212	1,115,257
Vehicles	834,133	634,697	199,436
Land	915,000	–	915,000
	$ 30,729,170	$ 15,054,960	$ 15,674,210

7. INTANGIBLE ASSETS:

2004	Cost	Accumulated amortization	Net book value
Deferred development costs	$ 2,582,402	$ 1,741,824	$ 840,578
Deferred finance costs	348,630	244,852	103,778
	$ 2,931,032	$ 1,986,676	$ 944,356
2003			
Deferred development costs	$ 2,187,334	$ 1,470,494	$ 716,840
Deferred finance costs	324,037	236,045	87,992
	$ 2,511,371	$ 1,706,539	$ 804,832

As at June 30, 2004, the Corporation recorded a write-down of $38,655 (2003 – $nil) as a result of a permanent impairment.

8. BANK LOANS AND LONG-TERM DEBT:

(a) Bank loans:

The bank loans are revolving lines of credit, repayable on demand, bearing interest at rates ranging from the bank's prime rate plus 1/2% to the bank's prime rate plus 1% per annum and are secured under various general security agreements covering, all present and after-acquired property of the Corporation, an assignment of life insurance on an officer and shareholder of the Corporation, a general assignment of accounts receivable and inventory, personal guarantees from an officer and shareholder of the Corporation and a postponement of claim by the Corporation.

(b) Long-term debt:

	2004	2003
Term loans, repayable in monthly principal instalments of approximately $90,000 plus interest ranging from the lenders' cost of funds to cost of funds plus 1/4% per annum, and the bank's prime rate plus 1 1/4% per annum and secured as described in note 8(a)	$ 6,793,033	$ 6,882,151
Mortgages, repayable in monthly principal instalments of approximately $25,000, bearing interest at rates ranging from the lenders' floating base rate to the lenders' cost of funds plus 2 3/4% per annum and secured by the buildings (see note 6). Mortgages are not subject to renewal until dates ranging from November, 2009 to May, 2016	4,323,600	3,524,150
Capital leases, due 2005 through 2007, payable monthly, with interest rates ranging from 8% to 12% per annum and secured by certain equipment with a net book value at June 30, 2004 totalling approximately $230,000 (2003 – $244,000)	99,106	182,457
	11,215,739	10,588,758
Less current portion	1,439,878	1,352,722
	$ 9,775,861	$ 9,236,036

Except as specifically disclosed, the Corporation has pledged as security for the various mortgages and loans, all of the assets of the Corporation.

8. BANK LOANS AND LONG-TERM DEBT: *continued*

The Corporation is required to make future principal payments as follows:

	Long-term debt	Capital leases	Total
2005	$ 1,376,000	$ 63,878	$ 1,439,878
2006	1,371,688	22,521	1,394,209
2007	1,369,400	12,707	1,382,107
2008	1,375,400	–	1,375,400
2009	1,321,400	–	1,321,400
Thereafter	4,302,745	–	4,302,745
	$ 11,116,633	$ 99,106	$ 11,215,739

9. SHARE CAPITAL:

(a) Authorized:

(i) Unlimited Class A voting common shares; and

(ii) 100,000,000 non-voting Class B shares, Series 2.

(b) Class A common shares issued:

	2004		2003	
	Shares	**Amount**	Shares	Amount
Balance, beginning of year	**17,866,473**	**$ 8,409,940**	18,139,473	$ 8,538,442
Redemption of shares	**(376,500)**	**(177,220)**	(328,000)	(151,602)
Issued for cash	**180,000**	**92,700**	55,000	23,100
Balance, end of year	**17,669,973**	**$ 8,325,420**	17,866,473	$ 8,409,940

During the year ended June 30, 2004 the Corporation acquired 376,500 (2003 – 328,000) of its Class A common shares for consideration consisting of cash proceeds totalling $396,242 (2003 – $226,625). As the consideration rendered was in excess of the stated value of the shares, the amount in excess totalling $219,022 (2003 – $75,023) was recorded as a reduction of retained earnings.

The Corporation also declared a special dividend of $0.028 per share on its Class A common shares, payable on March 15, 2004 to shareholders of record at the close of business on February 19, 2004. This was the first dividend paid by the Corporation.

9. **SHARE CAPITAL:** *continued*

(c) *Stock options:*

The Corporation has a stock option plan whereby officers, directors, employees and consultants may be granted options to purchase Class A common shares of the Corporation. As at June 30, 2004 options have been granted to purchase 603,724 (2003 – 783,724) Class A common shares at prices ranging from $0.50 to $0.53 until expiry on dates ranging from August 16, 2004 to September 26, 2007. Options vest at periods ranging from immediately to two years and have a term of five years to expiry.

	2004		2003	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
Outstanding options, beginning of year	**783,724**	**$ 0.52**	858,724	$ 0.50
Granted	**–**	**–**	60,000	0.52
Exercised	**(180,000)**	**0.52**	(55,000)	0.42
Expired / cancelled	**–**	**–**	(80,000)	0.42
Outstanding options, end of year	**603,724**	**$ 0.52**	783,724	$ 0.52
Options exercisable, end of year	**583,724**	**$ 0.52**	743,724	$ 0.52

Options Range of Exercise Price	**Outstanding June 30, 2004**	**Weighted average remaining contractual life (years)**	**Exercisable June 30, 2004**	**Weighted Weighted average exercise price**
$0.50	**243,724**	**0.13**	**243,724**	**$ 0.50**
$0.53	**300,000**	**1.33**	**300,000**	**$ 0.53**
$0.52	**60,000**	**3.25**	**40,000**	**$ 0.52**
$0.50 to 0.53	**603,724**	**1.04**	**583,724**	**$ 0.52**

(d) *Per share amounts:*

The weighted average number of Class A common shares outstanding during the year ended June 30, 2004 was 17,768,655 (year ended June 30, 2003 – 17,906,176). The dilutive effective of options for the year ended June 30, 2004 was 348,853 (year ended June 30, 2003 – 218,851).

10. STOCK BASED COMPENSATION:

The Corporation has a stock option plan whereby officers, directors, employees and consultants may be granted option to purchase Class A common shares of the Corporation.

For awards granted to all employees prior to July 1, 2003, compensation expense has not been recognized and recorded in the income statement. Had compensation cost been determined based on the fair value of the options at the grant dates the Corporation's net income and earnings per share would have been adjusted to the pro forma amounts noted below:

	2004	2003
Pro forma net income:		
Net income as reported	**$ 1,808,350**	$ 98,027
Pro forma compensation expense	**(4,793)**	(4,793)
Pro forma net income	**$ 1,803,557**	$ 93,234
Pro forma per share amounts:		
Basic net income per share as reported	**$ 0.10**	$ –
Basic net income per share pro forma	**$ 0.10**	$ –
Diluted net income per share as reported	**$ 0.10**	$ –
Diluted net income per share pro forma	**$ 0.10**	$ –

The pro forma amounts exclude the effect of options granted prior to July 1, 2002, and are based on the following assumptions in applying the Black-Scholes model:

Expected dividend yield	0.0%
Risk free interest rate	5.0%
Expected volatility	30.0%
Expected life (in years)	4.0

11. INCOME TAXES:

Total income taxes are different from the amount computed by applying the combined expected Canadian Federal and Provincial tax rate of 35.5% (2003 – 36.5%) to income before income taxes and other items. The reasons for the difference are as follows:

	2004	2003
Computed expected tax provision	**$ 746,052**	$ 265,281
Add (deduct) the tax effect of the following:		
Impact of change in federal and provincial tax rates	**(9,695)**	24,121
Large corporations and capital taxes	**16,811**	70,000
Change in future income taxes payable	**(223,000)**	134,500
Non-taxable portion of capital gains	**(262,182)**	–
Non-deductible portion of write-down and unrealized losses on marketable securities	**32,722**	134,500
Non-deductible expenses	**46,170**	367
Non-taxable from foreign and affiliated companies	**(53,674)**	–
Total income taxes, as reported	**$ 293,204**	$ 628,769

11. INCOME TAXES: *continued*

The components of the net future income tax asset (liabilities) at June 30, 2004 and 2003 are as follows:

	2004	2003
Future income tax assets:		
Non-capital losses	$ 574,000	$ 1,055,000
Net capital and other losses	132,000	924,000
	706,000	1,979,000
Future income tax liabilities:		
Intangible assets	(170,000)	(475,000)
Property and equipment	(744,500)	(1,025,500)
	(914,500)	(1,500,500)
Valuation allowance	(460,000)	(924,000)
Net future income tax asset (liability)	$ (668,500)	$ (445,500)

At June 30, 2004 the Corporation had cumulative income tax deductions totalling approximately $14,900,000, including reported non-capital losses for income tax purposes of approximately $1,617,000, which expire in the years 2007 to 2011. These deductions may not be available to those entities in the consolidated group that might otherwise be taxable.

Corporate tax returns are subject to assessment by taxation authorities in the normal course of business. The results of any assessments will be accounted for as a charge to earnings in the year in which they occur.

12. SEGMENTED INFORMATION:

Reportable segments are identified on the basis of internal reporting to senior management. The Corporation operates primarily through three operating groups being: 1) food processing and distribution, 2) real estate and rental properties, and 3) marketable securities investment. All operations are located in Canada.

Inter-segment eliminations relate to revenues between segments recorded at transfer prices based on current market prices. Operating margin represents total revenues less cost of sales, including depreciation. Operating expenses are comprised of interest, corporate, royalty, amortization and administrative charges. Identifiable assets by industry segment are the assets specifically attributable to those operations.

The following is an analysis of certain consolidated financial information by segment for the years ended June 30:

	2004	2003
Revenues:(1)		
Food processing and distribution	$ 37,574,456	$ 36,082,214
Real estate and rental properties	630,191	859,264
Inter-segment transactions	(630,000)	(630,000)
	$ 37,574,647	$ 36,311,478
Income before income taxes:		
Food processing and distribution	$ 997,657	$ 1,902,745
Marketable securities investment	1,562,675	(764,972)
Real estate and rental properties	92,222	122,812
Inter-segment transactions	(576,000)	(533,789)
	$ 2,076,554	$ 726,796

(1) During the year ended June 30, 2004, sales totalling approximately $4,758,000 (2003 – $4,406,000) were made to customers located in the United States.

12. SEGMENTED INFORMATION: *continued*

Property and equipment:

2004	Food processing and distribution	Real estate and rental properties	Total
Production equipment	**$ 11,150,026**	**$ 330,457**	**$ 11,480,483**
Buildings	**–**	**1,851,371**	**1,851,371**
Leasehold improvements	**956,918**	**15,721**	**972,639**
Vehicles	**201,206**	**–**	**201,206**
Land	**–**	**915,000**	**915,000**
	$ 12,308,150	**$ 3,112,549**	**$ 15,420,699**

2003	Food processing and distribution	Real estate and rental properties	Total
Production equipment	$ 11,103,463	$ 373,098	$ 11,476,561
Buildings	–	1,967,956	1,967,956
Leasehold improvements	1,097,790	17,467	1,115,257
Vehicles	199,436	–	199,436
Land	–	915,000	915,000
	$ 12,400,689	$ 3,273,521	$ 15,674,210

Expenditures on property and equipment, intangible assets and depreciation and amortization:

	2004		2003	
	Expenditures on property and equipment and other intangibles	**Depreciation and amortization**	Expenditures on property and equipment and other intangibles	Depreciation and amortization
Food processing and distribution	**$1,697,708**	**$1,612,067**	$1,028,731	$1,613,346
Real estate and rental properties	**–**	**160,973**	–	199,651
	$1,697,708	**$1,773,040**	$1,028,731	$1,812,997

Total identifiable assets:

	2004	2003
Food processing and distribution	**$22,521,905**	$21,170,046
Marketable securities	**10,323,544**	4,353,723
Real estate and rental properties	**3,769,009**	3,618,587
	$36,614,458	$29,142,356

13. FINANCIAL INSTRUMENTS:

(a) Fair values:

As at June 30, 2004 and 2003, the fair values of the Corporation's related party balances were considered undeterminable due to the inability to apply a valuation method or obtain market prices. The fair values of all other monetary assets, other than marketable securities (see note 2) and liabilities approximated their carrying values.

(b) Credit risk:

Credit risk arises from the possibility that the entities to which the Corporation provides services may experience difficulty and be unable to fulfill their obligations. The Corporation is exposed to financial risk that arises from the credit quality of the entities to which it provides services.

As at June 30, 2004, five customers accounted for 73% (2003 – five customers for 59%) of consolidated revenues from operations and five customers accounted for 56% (2003 – five customers for 65%) of the consolidated accounts receivable. The Company believes that there is no unusual exposure associated with the collection of these receivables. The Company performs regular credit assessments of its customers and provides allowances for potentially uncollectible accounts receivable.

(c) Interest rate risk:

The Corporation is exposed to fluctuations in interest rates with respect to its bank loan, margin accounts, long-term debt and balances due to and from related parties.

14. COMMITMENT:

The Corporation has a royalty agreement with a company of which the chairman of the Corporation is the president but not a shareholder. The royalty agreement extended to and expired on June 30, 2004 and resulted in the Corporation having to pay an annual obligation equal to the lesser of:

(i) $360,000; or

(ii) 18% of the gross sales of a wholly-owned subsidiary of the Corporation.

15. CONTINGENCY:

A secured creditor of Sparrow Electric Corporation ("Sparrow"), a former subsidiary of the Corporation, has successfully appealed a court decision wherein Canada Customs and Revenue Agency ("CRA") claimed priority over this creditor with respect to amounts owed by Sparrow regarding unpaid statutory deductions. CRA may have a potential claim of up to $925,000 against the directors of Sparrow. While the Corporation has a policy of indemnification for the directors of Sparrow, there is uncertainty as to whether the indemnification would be applicable in this circumstance. In addition, the Corporation has been advised by its legal counsel that on the basis of the facts presently known with respect to CRA's claim, the Corporation would have a good defense to an indemnification claim. As a result, no amount has been accrued as a liability and expense within these consolidated financial statements.
In the event that CRA successfully brings a claim against the directors of Sparrow and the Corporation is found liable in a court of law for this claim as a result of the director indemnification, the resulting settlement will be accounted for as a charge to net income in the period in which the settlement occurs.

16. SUPPLEMENTAL CASH FLOW DISCLOSURE:

(a) Changes in non-cash working capital:

	2004	2003
Marketable securities	**$ (4,645,987)**	$ (1,458,617)
Accounts receivable	**(557,930)**	(16,289)
Inventory	**(682,159)**	71,216
Prepaid expenses	**34,533**	57,504
Accounts payable and other liabilities	**28,593**	194,694
Margin loans on marketable securities investment	**4,192,068**	752,336
	$ (1,630,882)	$ (399,156)

(b) Cash payments:

The following approximate cash payments were made:

	2004	2003
Interest	**$ 1,061,000**	$ 1,003,000
Taxes	**$ 58,000**	$ 68,000

17. SUBSEQUENT EVENTS:

Subsequent to June 30, 2004 the Corporation repurchased 28,000 common shares for cash consideration totalling approximately $26,000.

On July 30, 2004, the Corporation executed a loan agreement to borrow $250,000 from a shareholder and former officer of the Corporation, unsecured, bearing interest rate at 13% per annum to be paid monthly, with the principal to be repaid in full on July 31, 2005. The funds were used to finance the asset purchase with First City Gourmet Foods ("First City") a division of Sepp's Gourmet Foods Ltd .

On August 10, 2004, an officer exercised the balance of the 138,724 options granted to him in 1999 at a price of $0.50 per share.

On August 10, 2004, the Corporation entered into a loan agreement with an officer of the Corporation whereby the Corporation loaned the officer $69,362, payable on demand and bearing interest at an annual rate of 7% per annum, maturing on June 30, 2007. Under the terms of the agreement, the officer transferred specific marketable securities with a fair market value of the same amount of the loan on the date of transfer to the Corporation. Upon settlement of the loan, these same securities will be transferred back to the officer who will then be required to repay the loan in full with all accrued interest.

On August 12, 2004, a subsidiary of the Corporation entered into an asset purchase agreement with First City. Pursuant to the agreement, the subsidiary agreed to purchase certain manufacturing and baking equipment coupled with other related properties for consideration of approximately $445,000.

Notes

Notes

BEAUMONT SELECT CORPORATIONS INC.